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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

29 March 1960

SUBJECT: G. I. S. Comments on O/CI Article re Egyptian Economy Outlook

We are in essential agreement with the remarks on the economic situation in the Egyptian province of the UAR, as made in the study.

1. The successes thus far achieved by the UAR government -- increased agricultural and industrial production, increased investment activity, etc. -- as well as the chances of a realization of the ambitious goals of the new Five-Year Plan are presented and judged very objectively. There is no denying the fact that the Egyptian province has made economic strides. Yet it seems appropriate not to judge too optimistically the tempo of further developments. Despite all efforts and noteworthy achievements, no rise in the standard of living of the Egyptian population has as yet been brought about. Even though Egyptian production is increasing from year to year, the extremely rapid increase in the population in recent years has largely absorbed and partly even surpassed the production increase. Although agricultural production keeps rising, per capita production within the last 20 years,

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for instance, has gone down by approximately 20 percent. Nor will industry and mining be in the position in the near future to counterbalance that relative decrease by means of their own growing production because agriculture continues to be by far the most important branch of the economy. A noticeable rise of the standard of living can, therefore, only be attained gradually. Also, owing to the low standard of living, the masses of the Egyptian population can in the near future hardly expect to make any appreciable savings. The numerically small propertied class can only slowly be induced to put its capital into investments which contribute toward developing and improving the economy of the country. No sudden basic changes of the present situation can, in view of that, be expected.

2. Much higher investments would be required, as you have pointed out, to raise the standard of living. With your investment quota, however, we do not completely agree. Given an annual population increase of 2.5 percent, our estimates consider investments of about 12 percent of the national income necessary to maintain the present standard of living. With investments amounting to 20 percent of the national income, in our opinion, the present standard of living could not only be maintained but could already be raised.

- 2 -

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3. The new Five-Year Plan, to be sure, establishes the foundation for a comprehensive development of the Egyptian economy. The goal of the Five-Year Plan will surely not be reached completely. But even with a part of the planned projects being realized, the Egyptian economy will have taken a big step ahead in its general economic development which will benefit primarily the procurement of food for an extremely fast growing population. There is no doubt that foreign aid -- unfortunately, one must assume, the Eastern variety -- will play a large part in this. Regarding the table you present on foreign aid available for the Second Five-Year Plan, it is to be noted that one will get the wrong picture if one puts in the total amounts of credits granted. Large parts of various credits have already been drawn upon. In view of that fact, only the following sums are still unused for the Second Plan:



25X1

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4. Doubtless the Egyptian economy imposes upon itself a heavy burden by accepting vast amounts of foreign aid. The obligations incurred thereby can in the years ahead be covered only, virtually, by cotton revenues and, to a certain extent, the net foreign currency revenues brought in by the Suez Canal traffic. Since no departure from the one-crop economy is possible on short terms, it is quite correct to say that an increase in the production of long-stapled cotton remains the safest source of revenue for the years to come. Only that, in our view, a production increase alone is not sufficient. The Egyptians themselves would have to make absolutely clear their price formation policy and also would have to meet the constant re-export. A fundamental improvement in foreign currency revenues could be attained if one could manage to put the cotton on the market uniformly and exclusively for hard foreign currency.

- 4 -